



# CITY OF FALLS CHURCH

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April 24, 2007

Honorable Mayor Robin Gardner,  
Members of the Falls Church City Council, and  
Taxpayers and Citizens of the City of Falls Church

I am pleased to present to you the FY 2007-2008 Operating Budget and Capital Improvements Program, as adopted by the City Council on April 23, 2007. The Budget is balanced within revenue estimates and designed to prioritize resources in line with the City Council Vision Statement and City's Strategic Plan. The budget maintains the City's financial security and high-quality services to our community.

The FY 2008 General Government budget provides a 2.9 percent increase in operating expenses over the current budget year. The School Board request is \$29,088,090 which represents a 5.2 percent increase over the transfer from FY 2007. These figures exclude spending for one-time capital purchases through the Capital Improvements Program.

This budget includes no increase in the real estate rate of \$1.01 per \$100 of assessed value. Water and Sewer fees remain unchanged again this year, for the second year in a row. The budget contains an increase in the cigarette tax from 65 cents per pack to 75 cents, which is projected to generate \$80,000 in additional revenue.

The FY08 Budget was adopted by the Council after comprehensive review and public comment that occurred during ten Council work sessions and three public hearings during March and April of this year. What follows is a more detailed summary of key provisions of this Budget that emerged from that rigorous public process.

## FY 2008 Revenue Projections and Summary of Expenditures

The flattening of the residential real estate market over the past year is the principal challenge on the revenue side of this year's budget. This long predicted slow-down comes after several years of accelerating home values, and is part of a familiar cycle that we last witnessed in the City and the region in the early 1990's. However, flat residential property tax revenue is offset this year by healthy growth in the commercial sector. Increases in commercial real estate valuations, sales tax receipts, building permit fees, and business license fees all reflect dynamic economic activity in the City. A measurable part of this activity is the direct outcome of economic development efforts by the City and policy decisions by the City Council over the past four years.

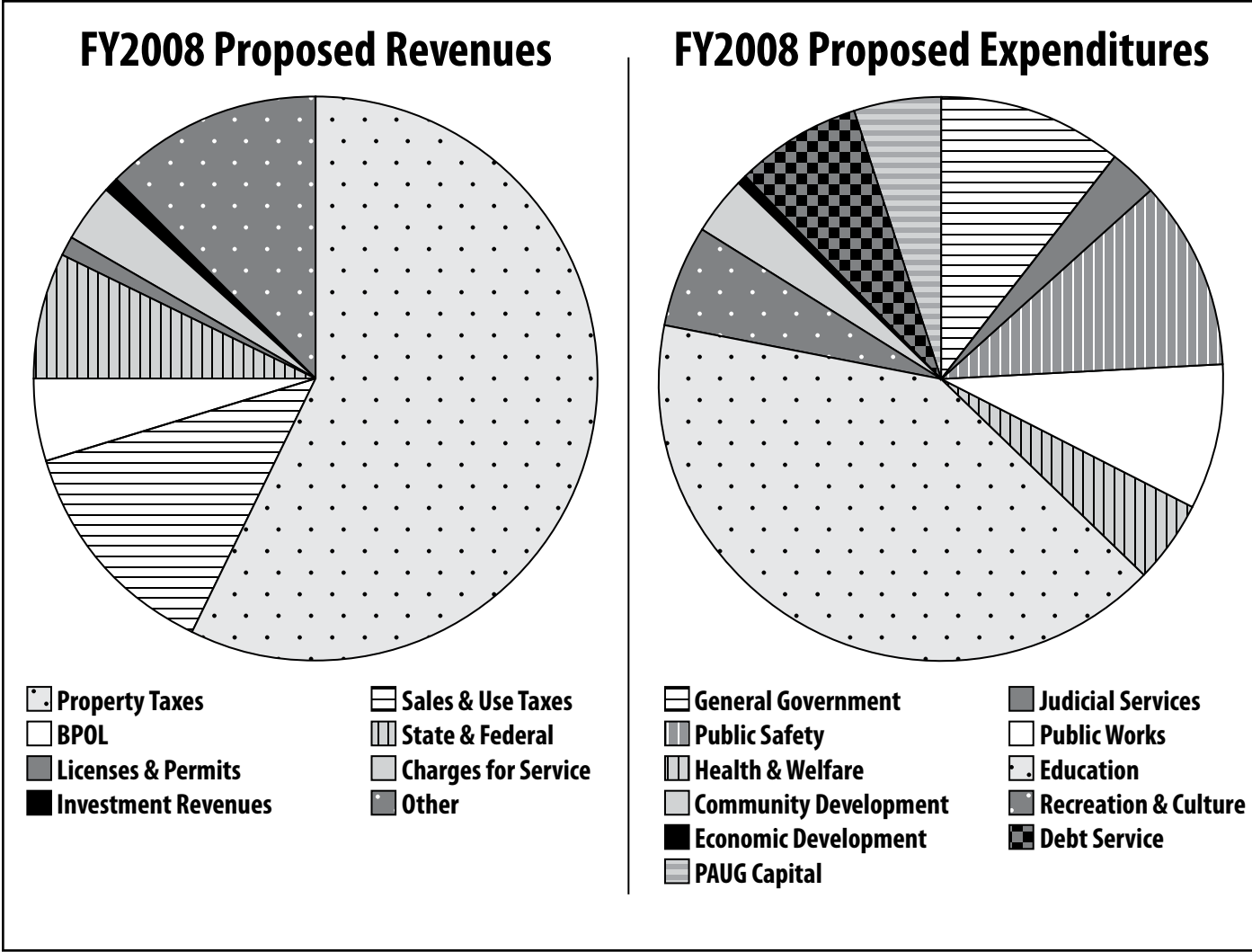
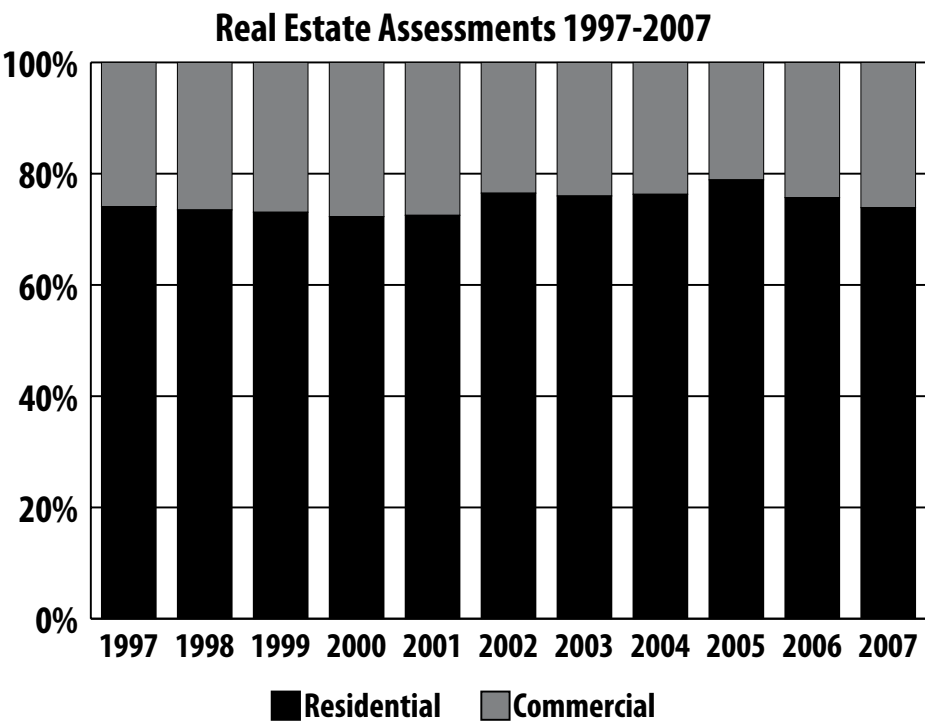
A breakdown of key revenue sources is provided in the table below.

	FY 2008 Revenue	% Increase From FY 2007
Residential Real Estate	\$ 27,029,027	-0.5%
Commercial Real Estate	9,546,116	9.5%
Sales Tax Receipts	4,330,000	7.6%
Business Licenses	3,363,400	5.8%
All other Operating Revenues	18,204,711	11.4%
<b>Total Operating Revenues</b>	<b>62,473,254</b>	<b>4.8%</b>
Grants, Transfers, and Use of Fund Balance	8,287,394	11.7%
<b>Total Revenue</b>	<b>\$ 70,790,648</b>	<b>5.6%</b>

New construction accounts for a significant portion of the rise in commercial assessed valuations this year. This figure represents major construction projects, such as The Byron, The Spectrum, and Pearson Square. In the residential sector, there was overall negative market appreciation this year. However, this was offset by continued construction activity in single family detached houses across the City.

This year also marks the continuation of a three-year trend toward a higher portion of total real estate assessments derived from the commercial sector, relative to the residential sector. It is not as marked as we might like, but it is moving in the right direction.

The two pie charts below indicate the source of funding for the FY 2008 budget, and to what ends these funds are expended.



## General Fund Initiatives

This year's budget development process began with the development of a Council Vision Statement in December. This Vision Statement was followed by a staff developed Strategic Work Plan. Both were the necessary preliminary work toward developing a prioritized budget that meets community needs.

A summary of major initiatives contained in the FY 2008 expenditure plan is provided below:

- **Realigning Personnel for Service Delivery** – This adopted budget reduces payroll costs for upper management, and redirects those funds to create four new positions that provide direct program support and customer service. The reduction in management payroll relates to a reorganization of the duties of the General Manager for Community Services. The Department of Community Services is composed of four divisions: Recreation and Parks; Library; Housing and Human Services; and Court Services. The GM for this department will retain his or her Division Director responsibilities, which allows the salary costs for this position to be reprogrammed toward other City needs. The administrative support position for the GM is not funded in this budget, and has been reprogrammed as well.

Through this reduction in management costs, and through a lengthy and disciplined look at other cost centers, funding has been directed toward needed front line and direct support staff positions. These positions include:

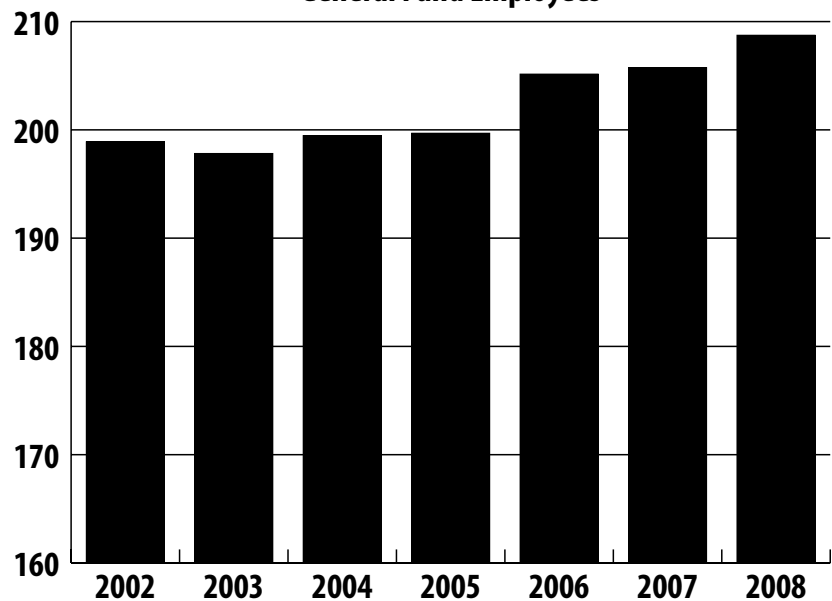
- *Building Inspections Electrical Inspector.* The City's building inspection services are provided by two employees, the Building Official and one inspector. We also rely heavily on contracted inspection services through the firm IBTS. This new position will allow the city to schedule all building inspections within 48 hours of a request. The cost of this position will be offset by savings in contracted inspection services, and provide a higher level of continuity and responsiveness.
  - *Environmental Services Civil Engineer.* Funding is provided for a civil engineer to handle the increase in construction plan review, construction site supervision, and complaint resolution associated with ongoing economic development in the City. The Council's Vision for innovative city programs that promote green building and sustainable development, along with state and federal environmental initiatives require us to increase our in-house professional expertise.
  - *Recreation and Parks Maintenance Worker.* The City currently employs two maintenance workers to maintain the City's 12 parks. This initiative will add a third maintenance worker. Over the past four years the City's parklands have increased with the addition of the Hamlett Tract and West End Park.
  - *Recreation and Parks Program Supervisor.* Currently there is one position in the City to manage all community center classes and City-wide special events. The addition of a Program Supervisor will separate these two functions, and allow us to meet the demand for additional classes and programs at the Community Center so that we use that facility to its full capacity. The new revenues generated from additional programs will partially offset the cost of this position.
  - *Public Safety Parking Enforcement Officer.* With increased commercial activity in the City, the business community demands more parking enforcement, and repeated requests for more enforcement of parking regulations in our residential areas around metro stations. We currently have one parking enforcement officer, and when that officer is out for training or vacation, there is no coverage for the City. This position is funded entirely from revenues generated by parking fines.
- **Investment in a High Performing Work Force** – This budget increases funding in the amount of \$50,000 for employee training programs, to develop our organizational capacity to serve the community in the most efficient, safe, cost-effective, and innovative manner. The budget also contains \$50,000 for the development of performance benchmarks for all functions relating to our water and sewer utility services. These two initiatives reflect the Strategic Plan objective of cultivating a high performing workforce to serve the City.
  - **Community Development Zoning Code Rewrite** – This budget provides \$100,000 in new funding for a comprehensive rewrite of City Zoning Codes. This reflects a critical Council priority as expressed in the Council Vision Statement relating to community preservation and economic development.
  - **Household Hazardous Waste Collection** – Funding is provided for a household hazardous waste collection event as proposed in the City's Solid Waste Management Plan. The cost is projected to be \$19,491. This initiative will more effectively divert hazardous waste from entering the normal waste stream and provide a useful service to City residents who otherwise would have to drive to the Fairfax County disposal site at West Ox Road.
  - **Green Fleet Program** – Funding is in this budget to continue the City's program to replace new vehicles with hybrids. This year, the City obtained funds through the federal Congestion Mitigation and Air Quality (CMAQ) program to purchase three new hybrid pick up trucks. This item and the preceding one are in line with the Council's Vision relating to Environmental Harmony.

The City has long prided itself on maintaining a stable number of employees across the organization. This budget funds a net increase of three employees, and it is important to discuss how these new positions will be paid for over time. In each case in this budget, the positions are paid for either through reductions in other positions, reduction in contract costs, or revenues derived from activities of that position. The graph below provides a look at the number of City employees over the past seven years.

As with every budget, this year's budget reflects prioritized choices. Among the initiatives proposed but not brought forward in this budget were:

- **Mentoring** – Court Services proposed \$45,349 for a mentoring program for at-risk youth. We were unable to fund this program, but will seek to initiate it in coordination with Schools, City staff and volunteers.
- **Roadbed Assessment** – DES requested \$60,000 for assessment of the City's roadbed.
- **Engineering Assistant** – DES requested an additional part time employee to provide administrative support to the Engineering Division.
- **Library** – The Library Board's adopted budget calls for \$10,000 in funding for a space needs study. I recommend against funding this study until such time as funding is provided in the CIP for improvement to the Library space.
- **Urban Forestry** – The Arborist requested funding for two additional tree crew workers, reflecting the additional work in that division that was not funded in this budget.
- **Assistant Registrar** – The Board of Elections requested an additional part time employee.
- **Revenue Assistant** – The Commissioner of Revenue requested a part-time revenue assistant to help with the additional workload brought on by the DMV select program.
- **WIFI** – This budget does not contain any money to study or initiate a free WIFI service for the community.
- **Contribution to Community-Based Groups** – This budget does not provide funding for community based organizations that have requested funding either this year or in the past. The Budget does include \$180,000 for a Council contingency fund, so that important community needs can be met upon Council action.

**General Fund Employees**



These items are needed programs and have strong justifications for them. Numerous other initiatives were proposed, however the list above gives some indication of what could not be accommodated in this budget.

## Capital Improvement Program And Pay As You Go

It is in capital planning that the need for long range vision is most needed. The Planning Commission recommended approval of a new Five-Year Capital Improvements Program on March 5, 2007, and I would encourage the Council to consider these funding priorities in the light of its Vision Statement.

The FY 2008 CIP continues progress, or starts new initiatives, on important projects for the City in the areas of:

- City Hall improvements;
- Stormwater improvements;
- Affordable housing;
- Transportation improvements;
- Pedestrian and traffic calming; and
- Providing reliable and safe water distribution.

### Capital Improvement Projects – FY 2008

Administrative Services	\$ 170,000
Public Works	\$ 3,176,000
Affordable Housing	\$ 2,000,000
Parks and Recreation	\$ 810,000
Schools	\$ 808,000
Water Fund	\$ 6,130,000
Sewer Fund	\$ 3,928,311

The FY 2008-2012 expenditures included in the Plan, as presented, are funded primarily through cash reserves and borrowing, in accordance with Council adopted policies with respect to debt limits and the use of reserve funds.

# Water and Sewer Funds

Revenue growth in the Water and Sewer enterprise funds is projected to remain modest, reflecting our demand projections. Growth is expected to result from adding new accounts due to construction both in the City and in the areas of Fairfax County served by the water system. This Budget continues the sound policy decisions of prior Councils, and places the enterprise funds operated by the City on a sustainable and financially secure footing.

The Water and Sewer Funds are supported by a stable rate structure that will remain unchanged for the second straight year. All rates adopted in this budget will be maintained as follows:

- Maintain the water rate at \$3.03 per thousand gallons; and
- Maintain the sewer rate at \$5.91 per thousand gallons.

The Water Fund includes funding for capital improvements to maintain the high level of service and reliability that our customers expect. With the completion of the Tyson's Tank improvements, which included a major new water tower, pump station, water main connections, and security features, the Utility is well positioned to serve our high growth areas for years to come. Our capital improvements program is focused on maintenance of existing facilities, including our ongoing iron main replacement program.

The Sewer Fund includes capital expenditures of \$950,311, which reflects our ongoing costs for the City's portion of the upgrades to the Arlington and Fairfax County's wastewater treatment plants, as well as ongoing maintenance of our aged pipes within our sanitary sewer collection system.

Water Fund		
	FY 2007	FY 2008
Expenditures:	\$32,983,153	\$22,999,100
Rates:	\$3.03	\$3.03
Sewer Fund		
	FY 2007	FY 2008
Expenditures:	\$3,087,456	\$5,631,898
Rates:	\$5.91	\$5.91

## Looking Ahead

The revenue picture for the City government allows us to continue to provide the public services the community expects, without a reduction in program activities. However, the story of this year's budget is strongly influenced by uncertainty and risk for FY 2009. Significant issues for the future include:

- Compliance with new government accounting rules (GASB-45) will require the City to pre-fund anticipated post-retirement health benefits. This will be a significant increase in annual operating costs. To responsibly plan for these costs, the City will conduct a review of our post retirement health benefit program over the coming year. In addition, the FY 2008 budget provides for \$2 million, from the City's reserve balance, to establish the trust fund required for these pre-funded benefits. By establishing a trust fund this year, the City's and School's unfunded liability will be reduced over the long term by \$3.3 million due to the earnings on the fund. The budgetary benefit of this action will be fully realized beginning with the FY 2009 budget and thereafter.
- Continued uncertainty in the real estate markets. Home sales this spring will be an important indicator of the future direction of home prices. The condominium market, in particular, is vulnerable to continued reductions in value. Expert opinion on future direction is mixed, with some pointing to continued strong job growth to argue for a resumption of growth in housing valuation. Others predict that housing prices will stay flat for as long as ten years, as speculative excess is wrung out of the market. How this unfolds will also impact the City's efforts at economic development in our City Center and other commercial areas.
- Trends at the state and federal level point to continued reduction in inter-governmental aid and the City will have to rely more each year on locally generated revenues as the primary funding source to pay for local services. As the State government seeks to provide new transportation funding for the region, the state share of services provided by the City, such as education and public safety, may decline. As the federal government tackles its budget deficit, declines in all streams of domestic discretionary spending can be expected.
- City debt levels are comfortably within adopted policy limits at the present time, but projected capital spending for new school facilities, as planned in the Capital Improvements Program, will present a serious future challenge.

Alongside these areas of concern, there are reasons to remain confident that the financial challenges faced by the City of Falls Church will be successfully overcome. The City's unemployment rate remains low and per capita income remains high in comparison to other counties and cities in the nation. Residential property values are under-girded by the City's strategic location, as well as our abundant economic, cultural and educational resources. Commercial office properties are in the midst of a rebound in values as City vacancy rates remain below the Northern Virginia average. Developer interest in the City's key commercial areas remains strong, and presents the City with an opportunity to shape its own future.

All this helps explain why the City of Falls Church continues to enjoy strong credit ratings: Moody's AA; Standard & Poor's AA+; and Fitch Aa2. The City Council has adopted financial policies related to fund balance and debt issuance that reflect a conservative approach to fiscal management while still allowing for a targeted use of borrowing and pay-as-you-go funding to meet community needs.

This adopted budget upholds these sound management policies, and also charts a path toward implementing the Council's adopted Vision and Strategic Plan.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "F. Wyatt Shields". The signature is written in a cursive, flowing style.

F. Wyatt Shields

City Manager